



**SUPPLEMENTAL AGENDA
PURCELLVILLE TOWN COUNCIL REGULAR MEETING
JULY 25, 2017, 7:00 PM
TOWN HALL COUNCIL CHAMBERS**

- 1) Additional Information for **ACTION ITEM(S)**:
12c. Resolution to Approve Refunding of Certain Debt Through Public Sale – Series 2017B*
(D. Davis/L. Krens) (pgs. 3-19)

- 2) Additional **ACTION ITEM(S)**:
12e. 150 Purcellville Gateway Drive Availability Fees*
(D. Lehnig) (pgs. 21-22) (Motions pg. 22)

***Roll Call Votes**

IF YOU REQUIRE ANY TYPE OF REASONABLE ACCOMMODATION AS A RESULT OF PHYSICAL, SENSORY OR MENTAL DISABILITY IN ORDER TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT DIANA HAYS, TOWN CLERK, AT 540-338-7421. THREE DAYS NOTICE IS REQUESTED.

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SUPPLEMENTAL STAFF REPORT
ACTION ITEM

Item # 12.c

SUBJECT: **SUPPLEMENTAL INFORMATION:** Resolution to Approve
Refunding of Certain Debt Through Public Sale – Series 2017B

DATE OF MEETING: July 25, 2017

STAFF CONTACTS: Daniel C. Davis, Assistant Town Manager
Elizabeth Krens, Director of Finance

After publication of the Staff Report on July 20th, staff received additional information to provide to the Town Council. The “Strategic Enterprise Fund and Parks & Rec. Fund Plan of Finance Update” prepared by Davenport, the Town’s Financial Advisor, provides and overview of the proposed debt restructure outlined in Item 12.c.

Strategic Enterprise Fund and Parks & Rec. Fund Plan of Finance Update

Town of Purcellville, Virginia



July 25, 2017

Background – Water & Sewer Utility



- The Town of Purcellville (the “Town”) has challenges in the Water & Sewer Utility Enterprise Funds, including the upcoming 2010 Build America Bond (the “2010 BAB”) Balloon payment due in FY 2021 of approximately \$1.44 million and existing debt service that increases by roughly \$2 million over the next 5 years.
- Davenport & Company, LLC, (“Davenport”) in our role as Financial Advisor, has worked with Town Staff to develop a potential Plan of Finance to structure the Town’s Existing Water and Sewer Debt and strategically utilize existing cash, over and above the Town’s policy (the “Strategic Realignment”), to responsibly insulate the Town’s rate payers from rate increases above what is necessary to operate the system in a financially responsible manner.
- At its May 23 meeting, Town Council approved Davenport to pursue a Dual Track Approach for the Strategic Realignment with the explicit goal of pursuing a Strategic Debt Realignment to free cash-flow and lessen the burden of debt service on the Town’s rate payers.
- The Dual Track Approach included soliciting financing options from local, regional, and national commercial banking institutions through a competitive Request for Proposals (“RFP”) and, if necessary, proceed with a Public Sale.
- Davenport reported back to the Town at the July 11 Town Council meeting with results of the RFP process and recommended next steps.
- At the July 11 meeting Town Council authorized Davenport and Staff to move forward with the plan of finance for formal approval at the July 25 meeting.

Water and Sewer Fund Considerations



1. The Town's Enterprise Fund has approximately \$41 million of debt outstanding. All Enterprise Fund debt is fixed rate, but payments increase roughly \$2 million in the next 5 years. The Town also has a \$1.44 million balloon payment due in FY 2021 from the 2010 BAB.
2. Over the next 5 years, the Town is expected to have an additional \$10 million of capital needs solely to maintain the system in proper working order. These costs are factored into the Plan of Finance.
3. Growth projections based on assumptions of availability connections only include Mayfair (ending in FY 2020), approved developments, and in-Town proposals.
4. A Strategic Debt Realignment allows the Town to minimize the impact on the Town's Water & Sewer User Rates over the next decade.

Note: The assumptions for the Strategic Realignment are part 1 of a 3 part Utility planning scenario, labeled Scenario 9A as presented at the March 30, 2017 Budget meeting. Please see Staff Notes for further detail.

Water and Sewer Fund Considerations (cont.)



5. The average interest rate(s) on the Town's debt to be realigned is roughly 4.46%. The estimated new interest rate on the Strategic Debt Realignment is expected to be under 4%.

6. The Town is projected to have in the range of \$8 million in Utility Fund Cash & Equivalents at the end of FY 2017. In addition, another \$4 million of Mayfair-related and other proposed Availability Fees are projected for FY 2018. The strong year-end FY 2017 reserves coupled with the contractually obligated Availability Fee revenue provide an opportunity for the Town to use cash that is over and above the Town's policy level to pay-down existing debt as part of the Strategic Debt Realignment. A total of roughly \$3.45 million of cash used to pay-down debt is incorporated as part of the Strategic Debt Realignment.

7. The use of Fund Balance to defease (i.e. pay off) the Water portion of the Town's 2010 BAB is contemplated as part of the Strategic Debt Realignment. Doing so removes the Tax-Exempt restrictions currently in place and provides the Town greater flexibility to incorporate private use of the Aberdeen property.

(1) Estimated results are preliminary, subject to change. Based on Responses to the RFP and estimated market rates as of July 19, 2017. Actual results may vary substantially from these estimates.

Note: The assumptions for the Strategic Realignment are part 1 of a 3 part Utility planning scenario, labeled Scenario 9A as presented at the March 30, 2017 budget meeting. Please see Staff Notes for further detail.

Water and Sewer Summary



■ Tax-Exempt 2017A (roughly \$5 million)

- As detailed on July 11, Middleburg and Sterling provided the best direct bank placement bids for the Tax-Exempt eligible portion of the Strategic Realignment.
- Middleburg and Sterling interest rates can be set through a time period required to obtain Town Council approval (i.e. the end of July).
- Sterling provides greater certainty as to the interest rate through the full term of the loan, albeit at a higher initial interest rate than Middleburg and a Public Sale.
- Both Sterling and Middleburg provide greater certainty as to the interest rate today than a Public Sale whereby the interest rates will not be set until the day of the sale (i.e. early September).
- **Recommendation:** Move forward with a Direct Bank Loan with Sterling.

■ Taxable 2017B and 2017C (roughly \$15.85 million)

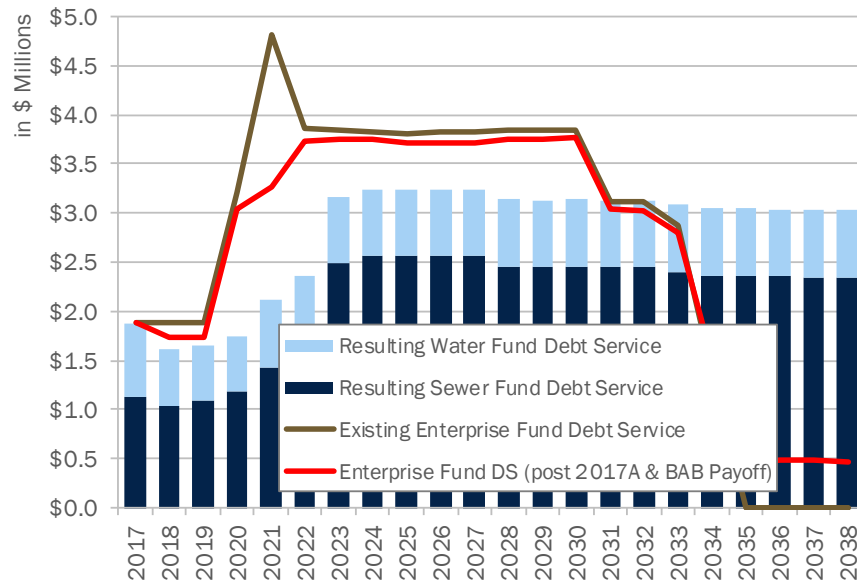
- All of the Taxable direct bank loan bids received from banking institutions with a fixed interest rate longer than 10 years are in the range of 100 to 200 basis points (i.e. 1% to 2%) higher than an estimated Taxable Public Sale.
 - Although the interest rate on a Public Sale will not be set until the day of the sale, there are substantial savings to pursuing a Public Sale in the current market.
 - **Recommendation:** Move forward with a Public Sale.
-
- Based on current market interest rates, the options presented herein produce a better preliminary estimated result than was presented to Town Council on May 23.

Water and Sewer Estimated Results

Sterling 20-Year Tax-Exempt & Public Taxable Sale



- Shown below are estimated results of 1.) the 2017A Bond issued through a 20-Year Direct Bank Loan with Sterling; 2.) the remaining Taxable Bonds issuing through a Public Sale; and, 3.) Defeasing the 2010 Build America Bond.⁽¹⁾
- Tax-Exempt TIC = 3.22%
- Taxable TIC = 3.56%
- Subject to Reset = N/A
- Cash-flow freed up through FY 2023 = \$6.83 Million
- The present value cost of the debt realignment is in the range of \$1 million. This cost can be thought of as the cost of helping to reduce planned rate increases of 7+% per year down to the 2% to 3% range.



A	B	C	D	C + D = E
Fiscal Year	Existing Enterprise Fund Debt Service	Resulting Sewer Fund Debt Service	Resulting Water Fund Debt Service	Total Resulting Enterprise Fund Debt Service ⁽¹⁾
Total	\$58,700,737	\$46,775,460	\$14,657,485	\$61,432,945
2017	1,880,987	1,125,805	755,181	1,880,987
2018	1,883,524	1,033,304	572,914	1,606,218
2019	1,884,758	1,093,151	555,446	1,648,597
2020	3,200,281	1,186,522	558,452	1,744,975
2021	4,816,149	1,437,251	671,745	2,108,996
2022	3,852,113	1,674,298	693,419	2,367,717
2023	3,838,560	2,499,679	670,611	3,170,290
2024	3,827,756	2,571,726	672,988	3,244,714
2025	3,809,383	2,565,473	675,236	3,240,709
2026	3,818,942	2,563,970	672,115	3,236,084
2027	3,824,682	2,566,978	673,614	3,240,591
2028	3,836,853	2,459,058	674,722	3,133,780
2029	3,841,306	2,456,422	675,300	3,131,722
2030	3,842,139	2,458,567	675,499	3,134,066
2031	3,118,228	2,454,149	674,856	3,129,004
2032	3,111,161	2,448,335	674,492	3,122,827
2033	2,875,665	2,404,504	686,194	3,090,699
2034	1,438,250	2,368,052	687,527	3,055,579
2035	-	2,358,452	682,381	3,040,833
2036	-	2,352,374	686,696	3,039,070
2037	-	2,349,063	685,164	3,034,227
2038	-	2,348,330	682,932	3,031,262

(1) Estimated results shown above are preliminary, subject to change. Based on Sterling 20-Year Tax-Exempt interest rate and estimated market rates for a taxable public sale as of July 19, 2017. Actual results may vary substantially from these estimates.

Background – Parks & Recreation



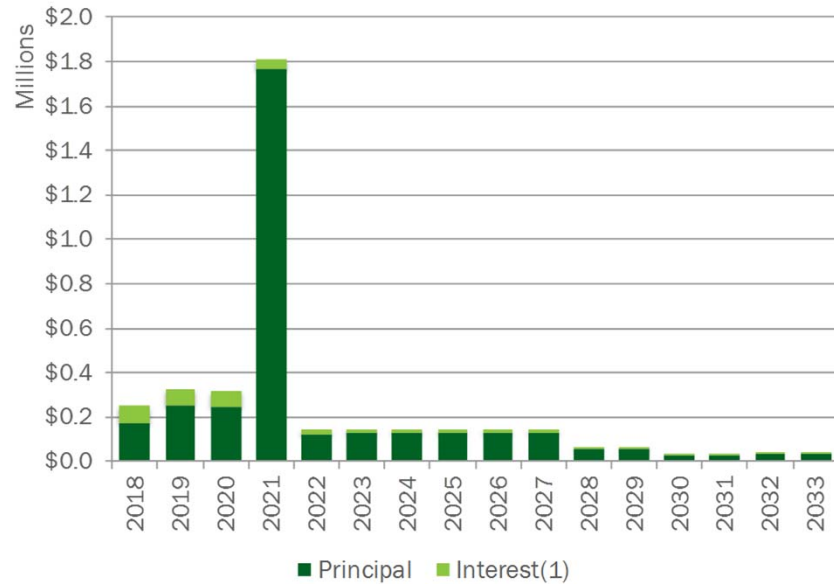
- The Town is limited in its ability to generate revenue at the Fireman's Field Complex due to the private use restrictions associated with the current tax-exempt nature of the debt.

- The Town wishes to remove these restrictions and provide more flexibility to partner with private sector entities at Fireman's Field in order to generate additional revenue for the Town and thus reduce/eliminate taxes tied to Fireman's Field.

- Town Staff and Davenport developed options that would allow the Town to:
 - Use General Fund Balance over and above the Town's policy limit to pay down the balloon maturity in the Parks & Recreation Fund;
 - Convert the balance of Parks & Recreation related debt to taxable debt;
 - The combination of the above actions will provide the Town with additional flexibility to incorporate "private use" at the Parks & Rec / Fireman's Field complex.

- At the July 11 meeting Town Council authorized Davenport to incorporate the Parks & Recreation debt payoff / taxable conversion with the plan of finance for the Water and Sewer Utility Enterprise Fund(s) noted earlier.

Existing Parks & Recreation Fund Debt Profile



Parks & Recreation Fund Debt Service			
Fiscal Year	Principal	Net Interest ⁽¹⁾	Total
Total	\$3,454,735	\$363,304	\$3,818,039
2018	176,129	77,998	254,127
2019	251,589	75,372	326,962
2020	248,502	70,257	318,758
2021	1,768,502	41,991	1,810,493
2022	123,962	17,133	141,096
2023	129,884	15,712	145,596
2024	130,345	14,021	144,366
2025	131,267	12,311	143,578
2026	131,727	10,583	142,310
2027	132,188	8,841	141,030
2028	53,110	7,081	60,191
2029	53,571	5,052	58,622
2030	29,492	3,003	32,496
2031	30,414	2,180	32,594
2032	31,796	1,324	33,121
2033	32,257	444	32,701

Series	Interest Rate(s)	Principal Outstanding as of 6/30/17
2007 PVFD Note	0.00%	\$850,000
2010 Build America Bond ⁽¹⁾	4.23% (Gross) / 2.85% (Net)	1,945,000
2012 G.O. Public Improvement and Refunding Bond	2.75%	414,735
2013A G.O. Refunding Bonds	3.00 - 5.00%	245,000
Total Outstanding		\$3,454,735

The analysis detailed herein assumes all outstanding debt in the Parks and Recreation Fund will be refunded with taxable debt at current market rates except the 2007 PVFD Note and any debt service payments that occur on/prior to August 1, 2017⁽²⁾.

(1) Principal outstanding on the 2010 BAB includes a \$1,645,000 balloon maturity due on July 15, 2020. Net Interest incorporates the 2010 BAB interest subsidy subject to the FY 2017 sequestration rate of 6.9%, i.e. assumes the Town receives 93.1% of original subsidy amount.

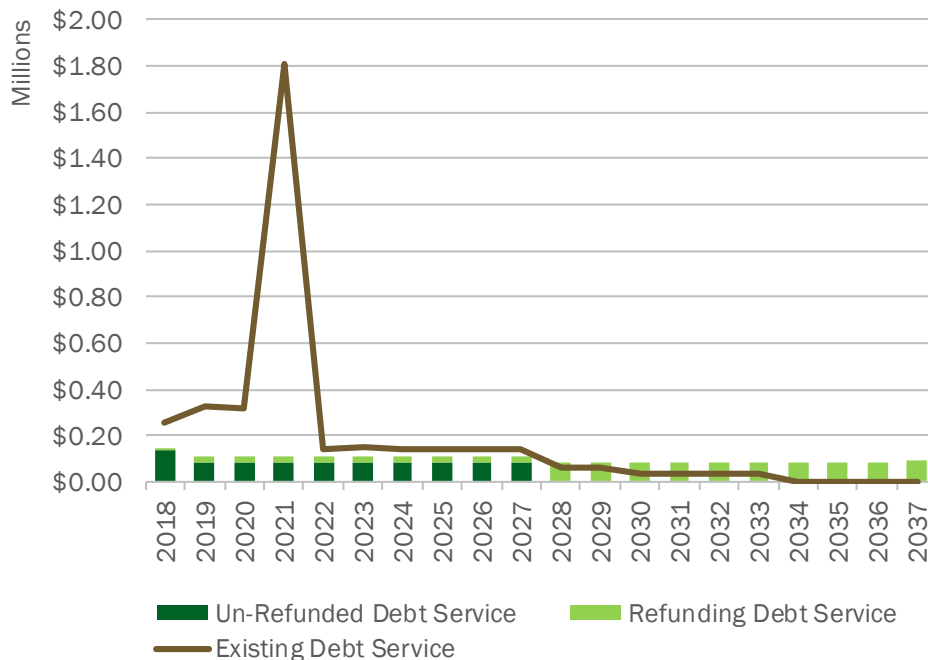
(2) Analysis assumes estimated closing date for the refunding/payoff transaction of September 28, 2017.

Resulting Parks & Rec. Debt Service

20-Year Taxable Refunding & Cash Payoff of 2010 BAB Balloon Payment



- True Interest Cost = 3.48%
- Average Coupon of Refunded Bonds = 3.13%
- Cash Payoff of the entire balance of the Parks & Rec. Portion of the 2010 BAB = \$2.1 million.
Note: The payoff of the Parks & Rec BAB would payoff the entire loan.
- Average Annual Debt Service = \$108,000 (through 2027).
- The present value cost / benefit of the Taxable Parks & Recreation conversion is essentially break even.



	A	B	C	A-B+C=D	E
FY	Existing Debt Service	Un-Refunded Debt Service	Refunding Debt Service	Resulting Debt Service	Cash Payoff of 2010 BAB
Total	\$3,818,039	\$905,238	\$1,062,430	\$1,967,669	\$2,061,683
2018	254,127	140,239	7,993	148,231	2,061,683
2019	326,962	85,000	23,394	108,394	-
2020	318,758	85,000	23,394	108,394	-
2021	1,810,493	85,000	23,394	108,394	-
2022	141,096	85,000	23,394	108,394	-
2023	145,596	85,000	23,394	108,394	-
2024	144,366	85,000	23,394	108,394	-
2025	143,578	85,000	23,394	108,394	-
2026	142,310	85,000	23,394	108,394	-
2027	141,030	85,000	23,394	108,394	-
2028	60,191	-	83,394	83,394	-
2029	58,622	-	81,594	81,594	-
2030	32,496	-	84,794	84,794	-
2031	32,594	-	87,763	87,763	-
2032	33,121	-	85,488	85,488	-
2033	32,701	-	83,213	83,213	-
2034	-	-	85,850	85,850	-
2035	-	-	83,225	83,225	-
2036	-	-	80,600	80,600	-
2037	-	-	87,975	87,975	-

Estimated results shown above are preliminary, subject to change. Based on estimated market rates for a taxable competitive public sale as of July 19, 2017. Actual results may vary substantially from these estimates.

Summary of Plan of Finance Components



	Tax Exempt Refunding of Utility Debt	Taxable Refunding of Utility Debt	Taxable Refunding of Parks & Rec Debt	Payoff of 2010 BAB Loan (Water Portion)	Payoff of 2010 BAB Loan (Parks & Rec. Portion)
Bond Series:	2017A	2017B	2017B		
Purpose:	Realign existing utility debt. Ease pressure on utility user rates.	Realign existing utility debt. Ease pressure on utility user rates.	Convert Parks & Rec. debt to taxable debt. Create flexibility to partner with private sector for Parks & Rec.	Paydown existing debt with reserves over and above policy. Remove balloon payment. Relieve pressure on user rates.	Paydown existing debt with reserves over and above policy. Remove balloon payment. Create flexibility to partner with private sector.
Lender:	Sterling Bank	Public Sale	Public Sale	N/A	N/A
Approximate Size:	\$5 million	\$17.2 million	\$700,000	N/A	N/A
Estimated True Interest Cost:	3.22%	3.56%	3.48%	N/A	N/A
Fixed Interest Rate:	Interest rate fixed for full term of loan	Interest rate fixed for full term of loan	Interest rate fixed for full term of loan	N/A	N/A
	Interest rate known today	Interest rate not set until pricing (early September)	Interest rate not set until pricing (early September)		
Loan Term:	20 year	20 year	20 year	N/A	N/A
Approx. Utility Cash Used to Paydown Debt:		\$1.5 million		\$1.9 million	
Approx. General Fund Cash Used to Paydown Debt:					\$2.1 million

Next Steps

Next Steps



- Davenport recommends that the Town continue to pursue the Dual Track Approach to successfully complete the Strategic Realignment (i.e. pursue the 2017A Tax-Exempt Refinancing through a Direct Bank Loan, and continue pursuing the Taxable Refundings through a Public Sale).

The Schedule Below Outlines the Dual Track Approach

- Tuesday, July 25

Regularly Scheduled Meeting of Town Council

Town Council considers formal approval of the issuance of the 2017A Bond through a Direct Bank loan and 2017B Bond via a Public Sale.

2017A Resolution prepared by Hunton & Williams – authorizes award of the 2017A Bond to Sterling Bank at the rate and terms noted in the Sterling proposal and discussed herein.

2017B Resolution prepared by Hunton & Williams – authorizes the sale of bonds in the public credit markets subject to parameters noted in the resolution. Note: The interest rates for the 2017B Bonds will not be set until the day of the sale but can not exceed the parameter noted in the resolution.

Next Steps, cont.



-
- | | |
|---------------------------------|---|
| ■ Balance of week of July 24 | Bid refunding escrow for 2017A Direct Bank Loan. |
| ■ Early August | Close on 2017A Direct Bank Loan. |
| ■ Balance of August | Prepare documentation for 2017B Public Sale. |
| ■ Late August | Meetings with National Credit Rating Agencies. |
| ■ Late August / Early September | Receive ratings from National Credit Rating Agencies. |
| ■ Early September | Sell Taxable Refinancing bonds in the public markets (interest rates set) / bid refunding escrow for 2017B Bonds. |
| ■ Mid September | Close on Taxable Refinancing bonds sold via a Public Sale. |

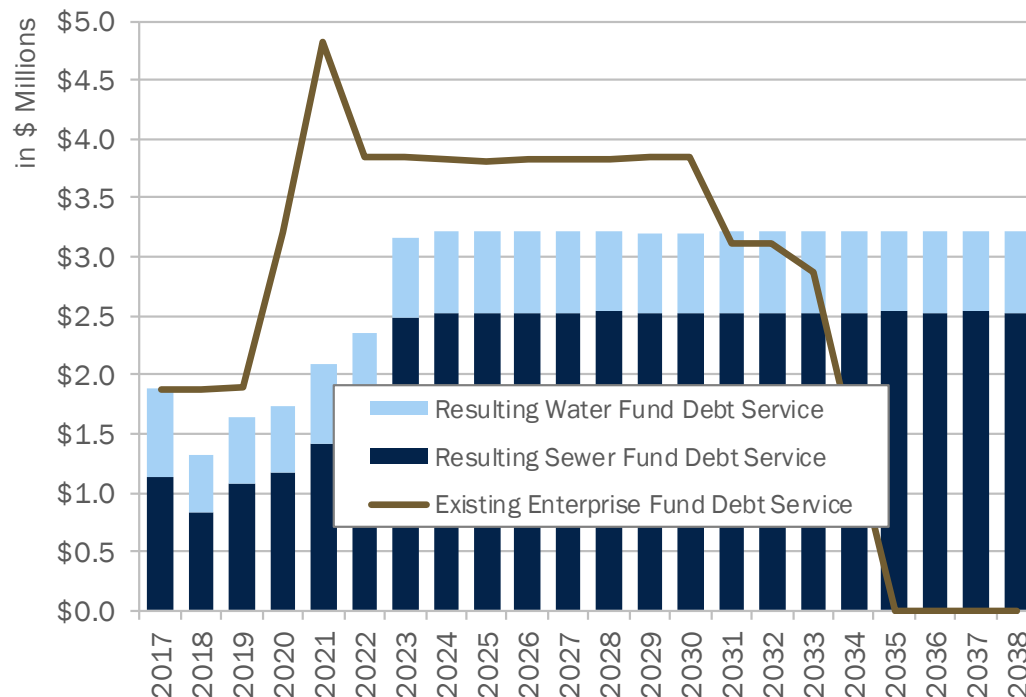
Appendices

Estimate Presented at May 23 Town Council Meeting



- Shown below are estimated results of 1.) issuing the 2017A Bond through a Tax-Exempt Public Sale; 2.) issuing the remaining Taxable Bonds through a Public Sale; and, 3.) Defeasing the 2010 Build America Bond. *Note: Assumes the Town uses \$1.9 million of cash reserves to pay off the remaining 2010 BAB.*⁽¹⁾

- Tax-Exempt TIC = 3.48%
- Taxable TIC = 3.72%
- Subject to Reset = N/A
- Savings through FY 2023 = \$7.16 Million



A	B	C	D	C + D = E
Fiscal Year	Existing Enterprise Fund Debt Service	Resulting Sewer Fund Debt Service	Resulting Water Fund Debt Service	Total Resulting Enterprise Fund Debt Service ⁽¹⁾
Total	\$58,700,737	\$47,704,161	\$14,696,759	\$62,400,921
2017	1,880,987	1,125,805	755,181	1,880,987
2018	1,883,524	838,497	486,888	1,325,386
2019	1,884,758	1,081,728	560,559	1,642,287
2020	3,200,281	1,171,204	564,209	1,735,413
2021	4,816,149	1,419,254	673,145	2,092,399
2022	3,852,113	1,661,274	684,503	2,345,778
2023	3,838,560	2,482,726	686,755	3,169,481
2024	3,827,756	2,524,451	687,867	3,212,318
2025	3,809,383	2,524,929	683,323	3,208,252
2026	3,818,942	2,524,941	683,324	3,208,266
2027	3,824,682	2,524,721	687,619	3,212,341
2028	3,836,853	2,534,171	686,091	3,220,262
2029	3,841,306	2,522,171	685,818	3,207,990
2030	3,842,139	2,520,346	685,077	3,205,423
2031	3,118,228	2,527,310	683,617	3,210,927
2032	3,111,161	2,525,585	687,699	3,213,284
2033	2,875,665	2,530,630	683,634	3,214,264
2034	1,438,250	2,529,730	683,750	3,213,480
2035	-	2,535,108	686,040	3,221,148
2036	-	2,530,815	687,310	3,218,125
2037	-	2,537,905	687,560	3,225,465
2038	-	2,530,858	686,790	3,217,648

(1) Estimated results shown above are preliminary, subject to change. Based on estimated market rates for a public sale as of May 23, 2017. Actual results may vary substantially from these estimates.

Municipal Advisor Disclaimer



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SUPPLEMENTAL STAFF REPORT

ACTION ITEM

Item #12e

SUBJECT: 150 Purcellville Gateway Drive Availability Fees

DATE OF MEETING: July 25, 2016

STAFF CONTACTS: Dale E. Lehnig, PE, CFM, Interim Public Works Director

SUMMARY and RECOMMENDATIONS:

The space that was formerly occupied by IJ Canns, in Purcellville Gateway Plaza, is proposed to be occupied by MOD Pizza, along with a potential other use (as yet to be determined), for a portion of that space. The developer (Echo Realty) has requested to have the option of increasing the size of the meter in order to accommodate the new uses. The existing meter is 1-inch and the developer is requesting a 1-1/2 inch meter. The application for MOD Pizza, with plumbing plans, has been reviewed by Town Staff using the standard calculations and procedures that are employed for the review of all business utility forms submitted to the Town. As submitted, the anticipated flows are outside of the range of the 1-inch meter, and Town Staff recommends approval of a 1-1/2 inch meter.

BACKGROUND:

The building at 150 Purcellville Gateway Drive is served by an existing 1-inch meter. Multiple businesses/spaces are served by the existing meter, including the space formerly occupied by IJ Canns restaurant. A new tenant, MOD Pizza, has submitted a business utility form which, when reviewed by Town Staff, indicates that the anticipated flows will exceed the range of the 1-inch meter. Mod Pizza is proposing to occupy only a portion of the space, with another tenant in the remainder.

Staff notified the Purcellville Gateway Plaza developer/tenant coordinator that the existing meter was undersized for the proposed uses. The developer is considering ways to reduce the number of fixture units in the building. Because Town Council does not meet in August, the developer wishes to have approval from Town Council to increase the meter size (and pay the associated availability fees), if there is no other option.

BUDGET IMPACT:

The water and sanitary sewer availability fees (plus meter fee) collected for this development, based on the difference between the existing meter size (1-inch) requested and recommended meter size (1-1/2 inch), is \$118,949.00. This includes the following differences between the availability fees for a 1-inch meter and 1-1/2 inch meter:

Water	\$64,385
Sanitary Sewer	\$54,000
Meter fee	\$ 564

MOTION(S):

"I move that the Town Council approve of the option to upgrade the existing 1-inch water meter to a 1-1/2 inch water meter, if needed, based on the water supply fixture count and anticipated flows for the proposed uses. This approval is valid with the following stipulations:

This availability must be purchased prior to the zoning permit being issued for the development of the property and must be purchased at the going availability rates at the time of purchase.

The approval of this availability is with the understanding that if the number of fixtures or water use exceeds the allowable amount for the meter size, the current owner will be required to upgrade the availability as necessary with all appropriate approvals, or the use will not be permitted."

OR

"I move that the Town Council rejects the proposed water meter sizes and associated water and sewer availability fees."